

MINUTES OF MEETING OF
THE AUDIT AND ETHICS COMMITTEE OF
THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

The Audit and Ethics Committee of The University of Texas Investment Management Company (the "Committee") convened on the 21st day of May, 1997, via conference call, said meeting having been called by the Committee Chairman, with notice provided to each member in accordance with the Bylaws. Participating in the meeting were the following members of the Committee:

Robert H. Allen
Susan M. Byrne
Dub Riter

thus, constituting a majority and quorum of the Committee. Also, participating in the meeting was Thomas G. Ricks, President of The University of Texas Investment Management Company (the "Corporation"); Cathy Iberg, Vice President - Investment Operations of the Corporation, William Strange CPA, representing the firm of Deloitte and Touche LLP, and Charles Chaffin, Director of Internal Audits for The University of Texas System (the "System"). Robert H. Allen, Chairman, called the meeting to order at 1:30 p.m.

Approval of the November 8, 1996 Minutes of the Audit and Ethics Committee

The first matter to come before the Committee was approval of the Audit and Ethics Committee Minutes of the November 8, 1996 meeting, copies of which had previously been furnished to each Committee member. By motion duly made, seconded, and carried by unanimous vote, the Audit and Ethics Committee duly approved the minutes of said meeting.

The University of Texas Investment Management Company (UTIMCO) Financial Statements

Mr. Ricks reviewed with the Committee the UTIMCO financial statements for the period ended March 31, 1997. This discussion was for informational purposes only and no action was required by the Committee.

Presentation of the UTIMCO Fee Request for the period September 1, 1997 through August 31, 1998

Mr. Ricks reviewed with the Committee the proposed UTIMCO Fee Request that will be presented to the System for budgetary purposes for the fiscal year ended August 31, 1998. He informed the Committee that the System budget would be presented for approval by the UTIMCO Board in June and the System Board of Regents at their August meeting. There was discussion and clarification regarding the proposed budget but no action was required by the Committee.

Implementation of State Auditor Recommendations

Mr. Ricks reviewed with the Committee the State Auditor's recommendations contained in their review of the System's investment practices. This report was issued in November, 1996. Each state auditor finding, recommendation, management's response, and the action taken to date as it relates to the finding was reviewed with the Committee. There was a lengthy discussion and clarification regarding the items

identified in the report. The Committee spent approximately one hour reviewing the report with Mr. Ricks.

Implementation of Deloitte & Touche Management Letter of Recommendations

Cathy Iberg reviewed with the Committee the two findings, recommendations, management's response and action taken to date regarding the Deloitte and Touche LLP Management Letter of Recommendation.

Following this discussion the Committee members indicated that they were pleased with management's responses and the actions taken to date on both the state auditor's comments as well as the Deloitte and Touche LLP comments.

Engagement of Independent Auditors

A short presentation was made by Deloitte and Touche LLP concerning the proposed engagement letter for the upcoming audit for the fiscal year ended August 31, 1997 for The Investments of The Permanent University Fund, The University of Texas System Long Term Fund and The University of Texas System Short/Intermediate Term Fund. UTIMCO will be audited for the calendar year ended December 31, 1996. Clarification was made to the Committee that the fee proposal would include an audit on PUF mineral receipts for which the System would be responsible. Prior year audit excluded an audit of the PUF mineral receipts. By motion duly made, seconded, and carried by unanimous vote, the following resolution was unanimously adopted:

RESOLVED, that the firm of Deloitte & Touche, LLP be and is hereby appointed as the independent auditor of the Corporation and Funds managed by the Corporation on behalf of the Board of Regents of The University of Texas System (the "U.T. Board") for the fiscal year ending August 31, 1997 for the Funds and for the calendar year ended December 31, 1996 for the Corporation, subject to the approval of the board of directors of the Corporation and the U.T. Board.

Report of UTIMCO Ethics Committee

Mr. Ricks informed the Committee that UTIMCO was in the process of establishing an Ethics Awareness Program. A UTIMCO Internal Ethics Committee will be responsible for implementing the Ethics Awareness Program. The responses regarding the program from the Committee were positive.

There being no further business to come before the Audit and Ethics Committee, the meeting was adjourned at approximately 3:05 p.m.

Approved _____
Committee Chairman

Date: _____